

**NEWAYGO CONSERVATION DISTRICT
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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NEWAYGO CONSERVATION DISTRICT

List of Principal Individuals

<u>Board Members</u>	<u>Position</u>
Fred Folkema	Chairman
Joan Kokx	Vice-Chairman & Treasurer
Ned Hughes, Jr.	Member
Jason Dunning	Secretary
Lawrence Bisson	Member
Gail Warnement	Executive Director



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Newaygo Conservation District
Fremont, MI 49412

We have audited the accompanying financial statements of the governmental activities each major fund, and the aggregate remaining fund information of Newaygo Conservation District as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Newaygo Conservation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the managements, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Newaygo Conservation District, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 5 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Independent Auditor's Report (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Newaygo Conservation District's financial statements as a whole. The schedule of revenues and expenditures by fund is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of revenues and expenditures is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "H&S Companies, P.C." in a cursive, slightly slanted script.

H&S Companies, P.C.

Fremont, MI

May 28, 2013

NEWAYGO CONSERVATION DISTRICT

Management's Discussion and Analysis September 30, 2012

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide financial statements.

The District as a Whole

The District's net assets decreased by approximately \$22,500 - or 8%. Revenues increased approximately \$39,000 or 14% - of this, operating grants, capital grants and miscellaneous revenues accounted the majority of the increase. The main reasons for the increase in revenues are the State of Michigan increasing the operating grant for 2012, a grant was received from the Fremont Area Community Foundation for improvements to the building at the Kropscott farm observatory, and sales of timber from land that the District owns. Expenses for the district also increased by approximately \$48,500 - or 14%, with the largest increase resulting from tree inventory adjustments at the nursery.

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Current Assets	\$ 219,328	\$ 100,735
Noncurrent Assets	204,160	209,181
Total Assets	<u>\$ 423,488</u>	<u>\$ 309,916</u>
Long-Term Liabilities Outstanding	\$ 5,115	\$ 2,937
Other Liabilities	155,328	21,453
Total Liabilities	<u>\$ 160,443</u>	<u>\$ 24,390</u>
Invested in Capital Assets, Net of Debt	\$ 204,160	\$ 204,160
Unrestricted	58,885	81,366
Total Net Assets	<u>\$ 263,045</u>	<u>\$ 285,526</u>
Program Revenues	<u>2012</u>	<u>2011</u>
Operating Grants	\$ 74,817	\$ 55,127
Capital Grants	16,474	-
Charges for Services	201,225	219,524
Reimbursements	825	553
Sales Tax Collected/Discounts	100	-
Interest	60	137
Miscellaneous	25,848	5,073
Total Revenues & Special Items	<u>319,349</u>	<u>280,414</u>

Management's Discussion & Analysis (Continued)

Program Expenses		
Administration	90,240	102,254
Groundwater Stewardship Program	58,081	44,679
Observatory	26,714	19,447
Nursery	166,795	126,846
Total Expenses	341,830	293,226
Change in Net Assets	\$ (22,481)	\$ (12,812)

Governmental Activities

Fund balance increased approximately \$2,100 or 6% from the 2011 amounts. This was mostly a result of timber sales in the current year.

The District's Funds

The District maintains only one fund. There are no component units for the District.

General Fund Budgetary Highlights

The District adopted a budget for the year ended September 30, 2012, in accordance with the guidance issued by the Michigan Department of Agriculture. This budget was amended during the year when there was sufficient information to change the estimates in the original budget. Overall expenditures were under budgeted by approximately \$1,200.

Capital Asset and Debt Administration

The District adopted a capital asset policy with a threshold of \$2,500. The District experienced a few expenses that were necessary regarding the maintenance of buildings and property. A grant was received from the Fremont Area Community Foundation to make repairs to the building at the Observatory. The total grant received was \$150,000, however, only \$16,474 was spent during 2012. The remainder will be spent during 2013. In addition, improvements were made on the roof for the administration building in 2011 totaling \$11,603.

Economic Factors and Next Year's Budget

The District's budget for the 12/13 fiscal year projects that there will be an increase in revenues of approximately \$154,500 due mostly to an the usage of grant funds for the Observatory building and a larger grant for the Groundwater Stewardship program of approximately \$7,000. Expenditures will increase as well by approximately \$151,000 with the largest increase occurring in capital outlay for the Observatory.

Contacting the District's Management

This financial report is intended to provide a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the District Administrator.

NEWAYGO CONSERVATION DISTRICT

Government Wide Statement of Net Assets September 30, 2012

	Governmental <u>Activities</u>
ASSETS	
Current Assets	
Cash	\$ 188,860
Prepaid Insurance	3,015
Accounts Receivable	2,575
Inventory	<u>24,878</u>
Total Current Assets	219,328
 Fixed Assets	
Equipment	787,427
(Less) Accumulated Depreciation	<u>(583,267)</u>
Total Fixed Assets	<u>204,160</u>
 Total Assets	423,488
 LIABILITIES	
Current Liabilities	
Payroll & Sales Tax Liabilities	16,555
Deferred Revenue	137,736
Customer Deposits	<u>1,037</u>
Total Current Liabilities	155,328
 Long Term Liabilities	
Accrued Absences	<u>5,115</u>
Total Long Term Liabilities	<u>5,115</u>
 Total Liabilities	<u>160,443</u>
 NET ASSETS	
Invested in Capital Assets - Net of Related Debt	204,160
Unrestricted	<u>58,885</u>
Total Net Assets	<u><u>\$ 263,045</u></u>

Notes to the Financial Statements are an integral part of this Statement.

NEWAYGO CONSERVATION DISTRICT

Government Wide Statement of Activities
For the Year Ended September 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			Net (Expenses)
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	Revenue and Changes
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>In Net Assets</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Governmental</u>
					<u>Activities</u>
<u>Governmental Activities</u>					
Administration	\$ 90,240	\$ 56,811	\$ 10,083	\$ -	\$ (23,346)
Groundwater Stewardship Program	58,081	-	53,061	-	(5,020)
Observatory	26,714	3,758	11,673	16,474	5,191
Nursery	166,795	140,656	-	-	(26,139)
Total Primary Government	<u>\$ 341,830</u>	<u>\$ 201,225</u>	<u>\$ 74,817</u>	<u>\$ 16,474</u>	<u>(49,314)</u>
 <u>General Revenues</u>					
Reimbursements					825
Sales Tax Collected					100
Interest					60
Miscellaneous					<u>25,848</u>
Total General Revenues & Special Items					<u>26,833</u>
Change in Net Assets					(22,481)
Net Assets - October 1					<u>285,526</u>
Net Assets - September 30					<u>\$ 263,045</u>

Notes to the Financial Statements are an integral part of this Statement.

NEWAYGO CONSERVATION DISTRICT

Governmental Fund Balance Sheet September 30, 2012

ASSETS

Cash	\$ 188,860
Accounts Receivable	<u>2,575</u>
Total Assets	<u>\$ 191,435</u>

LIABILITIES

Payroll & Sales Tax Liabilities	\$ 16,555
Deferred Revenue	137,736
Customer Deposits	<u>1,037</u>
Total Liabilities	155,328

FUND BALANCE

Unassigned	<u>36,107</u>
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Total Liabilities and Fund Balance	<u>\$ 191,435</u>
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The Notes to the Financial Statements are an integral part of this statement.

NEWAYGO CONSERVATION DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets September 30, 2012

Total Governmental Fund Balances	\$	36,107
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Total net assets reported for governmental activities in the statement of net assets are different from the amount reported as total governmental funds fund balance because:

Prepaid Insurance reflects amounts to be paid in a future period	3,015
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Inventory	24,878
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

Governmental Capital Assets	787,427	
Governmental Accumulated Depreciation	<u>(583,267)</u>	204,160

Compensating absences (vacation pay) are recorded in the government-wide statements if they are 1) attributable to services already rendered, and 2) are not contingent on a specific event (such as illness). However, these amounts are not recorded in the governmental funds until paid.

Accrued Vacation/Sick Pay	<u>(5,115)</u>
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Total Net Assets - Governmental Activities	<u><u>\$ 263,045</u></u>
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The Notes to the Financial Statements are an integral part of this statement.

NEWAYGO CONSERVATION DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2012

REVENUES

Local Grants & Donations	\$ 29,435
State Grants	63,144
Sales	169,961
Rentals	50,819
Interest Income	60
Sales Tax Collected	100
Reimbursements	825
Miscellaneous	<u>5,005</u>
Total Revenues	319,349

EXPENDITURES

Administration	79,588
Groundwater Stewardship Program	57,813
Observatory	33,488
Nursery	<u>146,287</u>
Total Expenditures	<u>317,176</u>
Excess Revenues Over (Under) Expenditures	2,173
Fund Balance October 1	<u>33,934</u>
Fund Balance September 30	<u><u>\$ 36,107</u></u>

The Notes to the Financial Statements are an integral part of this statement.

NEWAYGO CONSERVATION DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$	2,173
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Amounts reported for governmental activities in the statement
of activities are different because:

Change in inventory	(17,456)
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The acquisition of capital assets are reported in the governmental fund as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities:

Capital outlay reported in governmental fund statements	16,474	
Capital outlay reported as expenses in statement of activities	<u>-</u>	
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) assets.	16,474	
Depreciation expense reported in the statement of activities	<u>(21,495)</u>	(5,021)

Vacation/Sick pay is not recorded as an expense in the governmental fund until paid. However, vacation/sick pay is recorded when earned.

Vacation/Sick expense recorded in the government-wide statements.	<u>(2,177)</u>
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Change in Net Assets - Governmental Activities	<u>\$</u>	<u>(22,481)</u>
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The Notes to the Financial Statements are an integral part of this statement.

NEWAYGO CONSERVATION DISTRICT

Notes to the Financial Statements
For the Year Ended September 30, 2012

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Newaygo Conservation District (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the Newaygo Conservation District:

A. Reporting Entity

The Newaygo Conservation District is governed by an elected six member board.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are record only when payment is due.

The District reports the following major governmental funds:

The *general fund* is the district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Notes to the Financial Statement (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Tree Inventory - Tree inventory is estimated based on average cost per tree. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Supplies Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets - Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	20 Years
Office Equipment	4 Years
Other Depreciable Items	5 Years

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Prepaid Expense - Expenses that are paid in advance of the applicable fiscal year are recorded as prepaid expenses and later expensed in the applicable fiscal year.

Deferred Revenue - Income from grants is deferred and recognized over the periods to which the revenues relate.

Grants Receivable - The Newaygo Conservation District receives grant revenues based upon a reimbursement plan. Thus, expenditures are incurred then remitted to the State for reimbursement. All funds were received prior to year end September 30, 2012.

Compensated Absences (Vacation and Sick Leave) - It is the District's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation & sick pay is accrued when incurred in the government-wide financial statements.

Fund Equity - Beginning with fiscal year 2012, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable - Includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted - Includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed - Includes amounts that can only be used for specific purposes determined by a formal action by Board resolution. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (Board resolution) that was employed when the funds were initially committed.

Assigned - Includes amounts a government intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority.

Unassigned - Includes amounts that are available for any purpose. Positive amounts are only reported in the general fund.

Restricted sources are used first when an expense is incurred for which both restricted and unrestricted resources are available. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Notes to the Financial Statement (Continued)

General Fund - The general fund has unassigned fund balance of \$36,107 at September 30, 2012.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are being adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary data reflected in the financial statements.

The District begins its budgeting process in July of each year. At the July board meeting the administrator/executive director should provide a report to the board containing information required by the MDA Accounting Manual. The budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain public comments.

Prior to September 30, the budget is legally adopted.

The budget shown in these financial statements are as last amended through September 30, 2010.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the required supplemental data section of the financial statements, the District's actual expenditures and budgeted expenditures have been shown on a functional basis. The approved budget of the District was adopted on a line item level. The District does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgeted Funds - based on the functional level as reported, the District incurred expenditures which were materially in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditures</u>	<u>Difference</u>
Observatory	\$ 6,700	\$ 33,488	\$ (26,788)

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The District is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the District's Board of Directors in accordance with Public Act 196 of 1997 has authorized investments in bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation; or in a community foundation under PA 136 of 1921 as amended, but not the remainder of the State statutory authority as listed above.

The District's deposits are in accordance with statutory authority. All deposits are held at Choice One Bank and carried at cost. The District holds the accounts in its own name.

Notes to the Financial Statements (Continued)

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the even of a bank failure, the governments deposits may not be returned. As of September 30, 2012, none of the Districts bank balance of \$194,794 was exposed to custodial credit risk as it was within FDIC insurance guidelines.

At September 30, 2012, the cash & deposits of the District consisted of the following:

<u>Type</u>	<u>Market Value</u>	<u>Carrying Amount</u>
Checking	\$ 163,818	\$ 157,875
Savings	19,360	19,370
Certificates of Deposit	11,616	11,615
Total Cash & Deposits	<u>\$ 194,794</u>	<u>\$ 188,860</u>

NOTE D ACCOUNTS RECEIVABLE

At September 30, 2012 accounts receivable consisted of the following:

	<u>Accounts Receivable</u>	<u>Due from Other Governments</u>	<u>Total</u>
Due from Customers	\$ 2,575	\$ -	\$ 2,575
Total	<u>\$ 2,575</u>	<u>\$ -</u>	<u>\$ 2,575</u>

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 69,400	\$ -	\$ -	\$ 69,400
Capital Assets Being Depreciated				
Equipment	91,024	-	-	91,024
Land Improvements	6,171	-	-	6,171
Vehicles	6,000	-	-	6,000
Buildings & Improvements	598,358	16,474	-	614,832
Subtotal	701,553	16,474	-	718,027
Less Accumulated Depreciation for:				
Equipment	90,706	317	-	91,023
Land Improvements	3,805	1,234	-	5,039
Vehicles	6,000	-	-	6,000
Buildings & Improvements	461,261	19,944	-	481,205
Subtotal	561,772	21,495	-	583,267
Net Capital Assets Being Depreciated	139,781	(5,021)	-	134,760
Total Governmental Activities Capital Capital Assets - Net of Depreciation	<u>\$ 209,181</u>	<u>\$ (5,021)</u>	<u>\$ -</u>	<u>\$ 204,160</u>

Notes to the Financial Statements (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
Administration	\$ 9,767
Observatory	9,700
Nursery	<u>2,028</u>
Total Governmental Activities	<u>\$ 21,495</u>

NOTE F RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE G RETIREMENT PLAN

Description of Plan and Plan Assets - The District is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2011.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report the includes financial statements and required supplementary information for notes to the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, MI 48917-9755.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the District's personnel policy, which requires employees to contribute at a rate of 2% to the plan. The District is required to contribute at an actuarially determined rate; the rate was 3.19 percent as of September 1, 2011.

Annual Pension Cost - During the fiscal year ended September 30, 2012, the District's contributions totaling \$3,066 were made in accordance with contribution requirements. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increase of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2011 actuarial valuations. The entry age normal actuarial method was used to determine the entries at disclosure.

	As of 12/31/2011
Actuarial Accrued Liability	
Active members	\$ 54,612
Retirees & Beneficiaries	-
Vested Former Members	44,965
Pending Refunds	4,845
Total Actuarial Accrued Liability (b)	104,422
Valuation Assets	119,066
Unfunded (Over funded) Actuarial Accrued Liability	<u>\$ (14,644)</u>
Fiscal Year Beginning	9/1/2013
Annual Required Contribution (ARC)	3,312
Amortization Factor Used	3.25%

3 Year Trend Information			
Fiscal Period Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2009	3,576	100%	-
December 31, 2010	3,940	100%	-
December 31, 2011	3,684	100%	-

Schedule of Funding Progress (Dollars in Millions)						
Actuarial Valuation 12/31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a % of Covered Payroll ((b-a)/c)
2007	77,559	72,955	(4,604)	106%	101,791	-4.52%
2008	86,560	78,304	(8,256)	111%	62,087	-13.30%
2009	95,546	85,767	(9,779)	111%	112,386	-8.70%
2010	108,098	93,120	(14,978)	116%	91,500	-16.37%
2011	119,066	104,422	(14,644)	114%	101,944	-14.36%

Notes to the Financial Statements (Continued)

NOTE H SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to September 30, 2012, the most recent balance sheet presented herein, through May 28, 2013, the date these financial statements were available to be issued. No significant such events or transactions were identified.

NOTE I ADOPTION OF NEW ACCOUNTING STANDARD

The Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, with the District adopted effective October 1, 2011. The new standard changes fund balance classifications to depict the relative strength of the spending constraints and clarifies the definitions of various governmental fund types. The standard includes a new definition of special revenue funds that no longer meet that definition.

NEWAYGO CONSERVATION DISTRICT

Budgetary Comparison Schedule - Budget and Actual For the Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local Grants & Donations	\$ 13,099	\$ 168,384	\$ 29,435	\$ (138,949)
State Grants	67,918	68,655	63,144	(5,511)
Sales	184,970	177,391	169,961	(7,430)
Rentals	47,330	49,717	50,819	1,102
Interest Income	100	7	60	53
Sales Tax Collected	100	100	100	-
Reimbursements	600	825	825	-
Miscellaneous	3,800	5,097	5,005	(92)
Total Revenues	317,917	470,176	319,349	(150,827)
Expenditures				
Administration	82,770	82,770	79,588	3,182
Groundwater Stewardship Program	62,753	62,753	57,813	4,940
Observatory	6,700	6,700	33,488	(26,788)
Nursery	163,716	163,716	146,287	17,429
Total Expenditures	315,939	315,939	317,176	(1,237)
Net Change in Fund Balance	1,978	154,237	2,173	(152,064)
Fund Balance - Beginning	33,934	33,934	33,934	-
Fund Balance - Ending	<u>\$ 35,912</u>	<u>\$ 188,171</u>	<u>\$ 36,107</u>	<u>\$ (152,064)</u>

NEWAYGO CONSERVATION DISTRICT

Schedule of Revenues and Expenditures by Fund For the Year Ended September 30, 2012

	<u>Administration</u>	<u>Groundwater Stewardship</u>	<u>Observatory</u>	<u>Nursery</u>	<u>Total</u>
<u>Revenues</u>					
Local Grants & Donations	\$ -	\$ -	\$ 29,435	\$ -	\$ 29,435
State Grants	10,083	53,061	-	-	63,144
Sales	8,552	-	20,843	140,566	169,961
Rentals	48,259	-	2,470	90	50,819
Interest Income	60	-	-	-	60
Sales Tax Collected	100	-	-	-	100
Reimbursements	-	-	-	825	825
Miscellaneous	831	-	1,551	2,623	5,005
Total Revenues	67,885	53,061	54,299	144,104	319,349
<u>Expenditures</u>					
Salaries & Wages	35,732	35,506	-	82,334	153,572
Payroll Tax Expense	2,731	2,716	-	6,315	11,762
Fringe Benefits	15,706	2,411	-	16,284	34,401
Mileage Reimbursement	687	3,464	12	-	4,163
Meetings & Trainings	873	976	-	496	2,345
Supplies	4,620	84	594	30,267	35,565
Telephone	990	330	-	1,358	2,678
Utilities	6,916	-	1,004	3,671	11,591
Capital Outlay	73	-	-	-	73
Legal & Accounting	4,750	-	-	-	4,750
Fees	1,168	20	-	682	1,870
Contractual Services	4,454	-	19,888	503	24,845
Vehicle Expense	-	-	-	2,312	2,312
Repairs & Maintenance	53	-	-	383	436
Insurance	620	-	1,171	1,653	3,444
Cost Share	-	2,243	-	-	2,243
Miscellaneous	215	10,063	10,819	29	21,126
Total Expenditures	79,588	57,813	33,488	146,287	317,176
Excess Revenues & Sources Over (Under) Expenditures & Uses	\$ (11,703)	\$ (4,752)	\$ 20,811	\$ (2,183)	\$ 2,173



To Board of Directors
and Management of Newaygo Conservation District

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newaygo Conservation District as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Newaygo Conservation District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Newaygo Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Newaygo Conservation District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in Newaygo Conservation District's internal control to be material weaknesses:

Segregation of Duties Over Cash Collection, Invoicing, & Inventory Maintenance

Individuals responsible for maintaining the inventory and receivable records have access to the cash payments and receipts.

Segregation of Duties Over Inventory

The individual responsible for the inventory count also approves adjustments to the inventory records.

Inventory Reconciliation

The inventory count in the District's accounting software does not tie to the actual inventory. Adjustments should be made during the year to account for die-out and new growth and all sales.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Newaygo Conservation District's internal control to be significant deficiencies:

Review of Payroll Reports

There are numerous seasonal employees that work at the nursery during the year. Payroll reports are currently being reviewed by an individual that may not be able to detect errors with regards to nursery employees.

This communication is intended solely for the information and use of management, board of directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

H&S Companies, P.C.

H&S Companies, P.C.
Fremont, MI
May 28, 2013



May 28, 2013

To the Board of Directors
Newaygo Conservation District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newaygo Conservation District for the year ended September 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 2, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Newaygo Conservation District are described in Note A to the financial statements. As described in Note I to the financial statements, the District changed accounting policies related to fund balance reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the government wide financial statement was:

Management's estimate of the accumulated depreciation on property and equipment is based on straight line depreciation. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes misstatements of the financial statements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Record beginning and ending deferred revenue for grants;
- Record ending payables;
- Correction to deferred revenue for tree sales.



Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 28, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Prior audit findings

One of the recommendations we made after the audit for September 30, 2010, was to record a journal entry each month to reclass payroll taxes and unemployment insurance. When payroll is recorded in QuickBooks these expenditures are all coded to the operations class instead of their appropriate class such as GSP and nursery. While applying audit procedures during this year's audit, we did find that the executive director has made progress with correcting this issue and recording those journal entries.

Budget Issues

Expenditures exceeded the amount appropriated for the Observatory. As soon as those expenditures are identified that will exceed appropriated amount, an amendment should be made to the budget.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the board of directors and management of Newaygo Conservation District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

H&S Companies, P.C.

H&S Companies, P.C.